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2 FEB 1984

ADPP 19-84

MEMORANDUM FOR: Director of Personnel

FROM:



SUBJECT: Quality Step Increases

Grp,

1. Pursuant to our recent conversation regarding the relative costs of Quality Step Increases (QSI's) as compared to one-time award payments, I offer the following observations for your consideration.

2. Because awards and QSI's vary in amount due to unrelated factors, I have elected to compare the cost of a \$1,000 employee award to QSI's granted to employees at the GS-07 and GS-13 levels with and without a subsequent promotion to a higher grade. The costs of the QSI, including Agency matching contribution costs, were computed over a five calendar year time span and are detailed on attached exhibits. The salaries used are those prior to the recent pay raise effective 8 January 1984 and minor costs associated with QSI's such as increased employer FEGLI contributions have been ignored as irrelevant to the findings.

3. Employee cash awards are subject to applicable federal and state tax withholdings plus MEDTAX and FICA contributions. Retirement deductions are not taken from award payments. Thus, a \$1,000 award to an employee hired prior to 1 January 1984 would cost the Agency a total of \$1,013 (\$1,000 plus 1.3% of \$1,000 for employer's matching MEDTAX contribution). For employees hired on or after 1 January 1984, the cost would be \$1,070 (\$1,000 plus 7% for employer's matching FICA contribution). No other costs accrue to award payments. On the other hand, QSI's, in large part, are payments continuing into the future and which have additional employer contribution costs associated with those payments. The exhibits set forth hypothetical QSI awards costing a minimum of \$1,495 for a GS-07 employee with a subsequent promotion to GS-08 and a maximum of \$4,413 for a GS-13 with no promotion. These costs reflect only those for a five year time period and, with the exception of the Exhibit #3 projection, would continue to accrue.

4. Admittedly, this effort represents a simplistic approach to a difficult and highly subjective matter. Many variables are inherent in awards and QSI's; the size of the award; the step, grade, and timing of QSI; and the normal non-effect of a QSI on the waiting periods for within-grade-increases. Nonetheless, I feel confident that the general statement can be made that, depending upon the amount of the award in excess of \$1,000, QSI's are normally more expensive to the Agency.

5. If you have further questions on the subject, I would be happy to discuss them with you.



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Attachment As Stated

EXHIBIT #1

Effect and Cost of QSI for GS-7 With No Promotions 1984 - 1988

<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With No QSI</u>	<u>Cal. Yr.</u>	<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With QSI</u>	
GS-7/1	1/1/84	\$16,559	1984	GS-7/1	1/1/84	\$16,559	
GS-7/2 WGI	1/1/85	17,111	1985	GS-7/2 QSI	1/7/84	276	(6 mo. increase)
GS-7/3 WGI	1/1/86	17,663	1986	GS-7/3 WGI	1/1/85	17,663	
GS-7/4 WGI	1/1/87	18,215	1987	GS-7/4 WGI	1/1/86	18,215	
GS-7/4	1/1/87	<u>18,215</u>	1988	GS-7/4	1/1/86	18,215	
				GS-7/5 WGI	1/1/88	<u>18,767</u>	
Total Base Salary Paid		<u>\$87,763</u>		Total Base Salary Paid		<u>\$89,695</u>	
\$87,763 x Employer's matching contribution costs of 1.3% MEDTAX and 7% Retirement for employees hired prior to 1 Jan. 84 =				\$89,695 x 8.3% Employer costs as for employee #1			
		7,284					
Total Agency Costs		<u>\$95,047</u>					
				Total Agency Cost		<u>\$97,140</u>	=
				Cost of QSI =		<u>\$2,093</u>	

EXHIBIT #2Effect and Cost of QSI for GS-7 With A Promotion 1984 - 1988

Grade/ Step	Eff. Date	Salary Rate for Employee With No QSI	Cal. Yr.	Grade/ Step	Eff. Date	Salary Rate for Employee With QSI
GS-7/7	1/1/83	\$19,871	1984	GS-7/7	1/1/83	\$19,871
GS-7/7	1/1/83	19,871	1985	GS-7/8 QSI	1/7/84	276 (6 mo. increase)
GS-7/8 WGI	1/1/86	20,423	1986	GS-7/8	1/1/83	20,423
GS-7/8	1/1/86	20,423	1987	GS-7/9 WGI	1/1/86	20,975
GS-8/7 PROM	1/7/87	791 (6 mo. increase)	1987	GS-7/9	1/1/86	20,975
GS-8/7	1/7/87	22,005	1988	GS-8/8 PROM	1/7/87	821 (6 mo. increase)
				GS-8/8	1/7/87	22,616
Total Base Salary Paid		<u>\$103,384</u>		Total Base Salary Paid		<u>\$105,957</u>
\$124,598 x Employer's matching contribution costs of 1.3% MEDTAX and 7% Retirement for employees hired prior to 1 Jan. 84 = 8,581				\$127,752 x 8.3% Employer costs as for employee #1		
Total Agency Costs		<u>\$111,965</u>		Total Agency Cost		<u>\$114,751</u>
Cost of QSI =				<u>\$2,786</u>		

Grade/ Step	Eff. Date	Salary Rate for Employee With QSI
GS-7/1	1/1/84	\$16,559
GS-7/2 QSI	1/7/84	276
GS-7/3 WGI	1/1/85	17,663
GS-7/4 WGI	1/1/86	18,215
GS-7/4	1/1/86	18,215
GS-8/3 PROM	1/7/87	673
GS-8/3	1/7/87	19,561
GS-8/4 WGI	1/7/88	306

Total Base Salary Paid	<u>\$91,468</u>
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	=	<u>7,592</u>
Total Agency Costs	=	<u><u>99,060</u></u>

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EXHIBIT #4

Effect and Cost of QSI for GS-13 With No Promotions 1984 - 1988

<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With No QSI</u>	<u>Cal. Yr.</u>	<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With QSI</u>
GS-13/1	1/1/84	\$34,930	1984	GS-13/1	1/1/84	\$34,930
GS-13/2 WGI	1/1/85	36,094	1985	GS-13/2 QSI	1/7/84	582 (6 mo. increase)
GS-13/3 WGI	1/1/86	37,258	1986	GS-13/3 WGI	1/1/85	37,258
GS-13/4 WGI	1/1/87	38,422	1987	GS-13/4 WGI	1/1/86	38,422
GS-13/4	1/1/87	38,422	1988	GS-13/4	1/1/86	38,422
				GS-13/5 WGI	1/1/88	39,586
Total Base Salary Paid		<u>\$185,126</u>		Total Base Salary Paid		<u>\$189,200</u>
\$185,126 x Employer's matching contribution costs of 1.3% MEDTAX and 7% Retirement for employees hired prior to 1 Jan. 84 = 15,365				\$189,200 x 8.3% Employer costs as for employee #1		
Total Agency Costs		<u>\$200,491</u>		Total Agency Costs		= <u>204,904</u>
Cost of QSI =				<u>\$4,413</u>		

Effect and Cost of QSI for GS-13 With A Promotion 1984 - 1988

<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With No QSI</u>	<u>Cal. Yr.</u>	<u>Grade/ Step</u>	<u>Eff. Date</u>	<u>Salary Rate for Employee With QSI</u>
GS-13/5	1/1/84	\$39,586	1984	GS-13/5	1/1/84	\$39,586
GS-13/5	1/1/84	39,586	1985	GS-13/6 QSI	1/1/85	40,750
GS-13/6 WGI	1/1/86	40,750	1986	GS-13/7 WGI	1/1/86	41,914
GS-14/3 PROM	1/1/87	44,029	1987	GS-14/4 PROM	1/1/87	45,405
GS-14/4 WGI	1/1/88	45,405	1988	GS-14/4	1/1/87	45,405
Total Base Salary Paid		<u>\$209,356</u>		Total Base Salary Paid		<u>\$213,060</u>
\$209,356 x Employer's matching contribution costs of 1.3% MEDTAX and 7% Retirement for employees hired prior to 1 Jan. 84 = 17,377				\$213,060 x 8.3% Employer costs as for employee #1 = 17,684		
Total Agency Costs		<u>\$226,733</u>		Total Agency Costs		= <u>230,744</u>
Cost of QSI =				<u>\$4,011</u>		